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GARY PIERCE
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BOB STUMP
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PAUL NEWMAN
Commissioner

SANDRA D. KENNEDY
Commissioner

BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION)
OF ARIZONA-AMERICAN WATER)
COMPANY, AN ARIZONA)
CORPORATION, FOR A)
DETERMINATION OF THE CURRENT)
FAIR VALUE OF ITS UTILITY PLANT)
AND PROPERTY AND FOR INCREASES)
IN ITS RATES AND CHARGES BASED)
THEREON FOR UTILITY SERVICE BY ITS)
AGUA FRIA WATER DISTRICT, HAVASU)
WATER DISTRICT, AND MOHAVE)
WATER DISTRICT.)

DOCKET NO. W-01303A-10-0448

NOTICE OF ERRATA

Attached is a complete copy of the rebuttal testimony of Troy Day. Certain pages were omitted inadvertently in the filing made on July 15, 2011.

RESPECTFULLY SUBMITTED this 18th day of July, 2011.

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2 of the foregoing filed
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4 The Arizona Corporation Commission
5 Utilities Division – Docket Control
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7 Phoenix, Arizona 85007

8 Copy of the foregoing hand-delivered
9 this 18th day of July, 2011, to:

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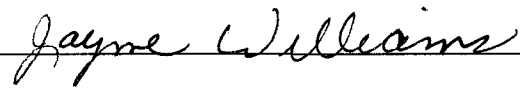
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
PAUL NEWMAN
SANDRA D. KENNEDY
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS AGUA FRIA,
HAVASU, MOHAVE AND PARADISE VALLEY
WATER DISTRICTS

DOCKET NO. W-01303A-10-0448

**REBUTTAL TESTIMONY
OF
TROY DAY
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
JULY 15, 2011**

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EXECUTIVE SUMMARY

Troy Day testifies that Arizona-American actively incorporates water loss reduction efforts in its day to day operation and its routine maintenance of all its water systems. Arizona-American has developed non revenue water (NRW) plans for all its water districts and has completed significant work towards reducing NRW. Arizona American asserts that it is in compliance with ACC Decision number 71410 that required the Company to reduce its water loss in the Mohave and Havasu water districts to less than 10% or formulate a plan to reduce water loss to less than 10%.

Arizona-American has made significant prudent efforts to reduce its NRW in all districts. While there has been much progress, there is still more that can be done. Arizona-American believes it has struck the appropriate balance in this effort to reduce water loss but not cause significant expenses that would be passed on to customers.

I INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, ADDRESS, AND TELEPHONE NUMBER.

A. My name is Troy Day. My business address is 2355 West Pinnacle Peak Road, Suite 300, Phoenix, Arizona 85027, and my telephone number is 623-445-2422.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. To provide information on the significant efforts made in water loss reduction programs and to demonstrate to the Commission that Staff recommendations on water loss are not in the best interest of the Company, our customers, or in addressing aging infrastructure issues.

Q. CAN YOU PROVIDE SOME BACKGROUND ON WATER LOSS IN THE MOHAVE AND HAVASU WATER DISTRICTS?

A. Yes, in Decision No. 71410, the Commission ordered Arizona-American to do the following:

It is reasonable and in the public interest to require the Company, for its Mohave Water district and Havasu Water district, to reduce its water loss to below 10 percent by June 30, 2010 or before it files its next rate increase application and/or CC&N application and/or financing application, whichever comes first, and to begin water loss monitoring and take action to ensure water loss remains less than 10 percent immediately. If the water loss for the twelve month period ending June 30, 2010, is greater than 10 percent, it is reasonable and in the public interest to require the Company to formulate a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why water loss reduction to 10 percent or less is not feasible or cost effective, and to docket in this case no later than July 31, 2010, either the plan, the report, or notification that its water loss has been reduced to below 10 percent.

II COMPANY ACTIONS TO ADDRESS NON REVENUE WATER

**Q. WHAT ACTIONS DID THE COMPANY TAKE IN RESPONSE TO THIS
CONDITION?**

A. In compliance with the Decision, Arizona-American developed, implemented and docketed a plan to reduce Non Revenue Water ("NRW") in these systems before July 31, 2010. This plan is attached as Exhibit A to my testimony. This approach was pursued in lieu of the other option to comply with Decision 71410 (submitting an analysis as to why reducing NRW to less than 10% was not feasible or cost effective) because the Company remains committed to reducing NRW where practicable. Arizona-American agrees that NRW reduction is very important and has implemented various and significant efforts to mitigate NRW, which I will describe below.

**Q. DID ARIZONA-AMERICAN DISCUSS THESE PLANS WITH COMMISSION
STAFF?**

A. Yes, the Company has meet with Commission Staff to discuss NRW plans and issues on many occasions. These meetings began in 2009; we had subsequent meetings with Commission Staff in May 2010, June 2011 and July, 2011. Staff has been very receptive to our proposals on reducing NRW and has complimented us on the thoroughness of our NRW plans.

**Q. HAS ARIZONA-AMERICAN UPDATED ITS PLANS OVER TIME TO
CONTINUE TO REDUCE NRW?**

A. Yes. Arizona-American has updated its NRW plans since the initial 2010 submittal. The Company has submitted these updated NRW plans to Commission Staff, has discussed them with Staff, and the updated plans are also attached as Exhibit B to my testimony.

**Q. WHAT ARE THE KEY FEATURES OF ARIZONA-AMERICAN'S NRW
PLANS?**

1 A. The NRW plans begin with a water audit tool that identifies the amount of water
2 produced or purchased. It also identifies different types of water use such as metered
3 sales, main flushing and fire service. This audit tool assists the district in identifying
4 where water losses may be occurring. From the audit tool results, decisions are made on
5 where and how to focus efforts to reduce NRW. The NRW plans contain a host of tools
6 to work from depending on where the audit tools indicate the problem may be. Included
7 in this list of tools are:

- 8 1. Aged meter replacement program; periodic replacement of aged and broken meters.
- 9 2. Acoustic leak detection program; use of mobile acoustic leak detection equipment
10 used to target areas of concern in the distribution system.
- 11 3. Meter edit report for low water usage; office staff review this report and decide if a
12 meter appears to be under-registering and needs to be replaced.
- 13 4. Large meter testing program; annual testing of customer meters 3 inch and larger.
- 14 5. Leak and line break response time monitoring; the manager reviews service orders to
15 ensure leaks and line breaks are attended to in a timely fashion.
- 16 6. Meter edit report for zero water consumption; office staff review report to decide if a
17 field inspection needs to be done to investigate water theft.
- 18 7. Employee incentive program; monthly gift certificate are given to employees who
19 identify theft, unmetered customers or undocumented services.
- 20 8. Production meter testing program; all production meters are tested and calibrated
21 annually.
- 22 9. Targeted theft prevention program; in areas that we suspect water theft is prevalent,
23 fire hydrants and valve cans are locked, and routine patrols are instigated.

10. Sub-metering program; in areas that we are unsure what part of the distribution system is experiencing higher NRW, we have installed meters in the mains to help track down location of water loss.

These tools are being used daily to help control water loss in all AAW drinking water systems. In addition, in order to better track the amount of work being completed to reduce NRW, the Company has created spreadsheets in order to capture and report work tasks by specific category of the NRW plans. The spreadsheet highlighting these substantial efforts are attached as Exhibit C.

As shown in the attached spreadsheets, since 2010, Arizona-American has accomplished the following work in its Mohave and Havasu districts:

- 333,530 feet of our distribution mains have been surveyed by acoustic leak detection.
- 1,628 service lines have been repaired or replaced.
- 4,702 customer meters have been replaced.
- Over \$2,000,000 in capital has been invested to address NRW issues.

III THE COMPANY IS TAKING APPROPRIATE ACTIONS FOR NON REVENUE WATER

Q. DOES ARIZONA-AMERICAN BELIEVE THAT ITS EFFORTS ARE APPROPRIATE AND COST EFFECTIVE?

A. Absolutely. We strongly believe that we are doing all the appropriate tasks of a prudent and responsible water utility in our efforts to reduce NRW. We have invested a great deal of management time and staff time and we are confident that with time these efforts will produce the desired results.

Since 2010, we have developed and implemented NRW water plans for all of our water districts, even for those districts that have NRW below 10%. These plans, which contain many of the same efforts being taken in the Mohave and Havasu districts, have resulted in excellent progress in certain districts as illustrated below:

District	NRW June 2010	NRW May 2011
Sun City	8.58%	6.19%
Sun City West	10.67%	9.07%
Lake Mohave Highlands	18.59%	7.27%

Q. DOES ARIZONA-AMERICAN AGREE WITH COMMISSION STAFF'S RECOMMENDATION THAT IT IS APPROPRIATE TO REQUIRE WATER LOSS BE BELOW 10% PRIOR TO RATES GOING INTO EFFECT IN THE MOHAVE AND HAVASU DISTRICTS?

A. No. Beyond the legal arguments against adopting such a recommendation, Arizona-American is not aware of the Commission taking such draconian action in any other water utility proceeding in which the utility is making a good-faith effort to reduce NRW. Arizona-American simply does not believe that Staff is interpreting the paragraph in Decision No. 71410 correctly, nor acknowledging the good progress and determined effort that the Company is making to address the issue. The Commission's Decision No. 71410 explicitly stated:

If the water loss for the twelve month period ending June 30, 2010, is greater than 10 percent, it is reasonable and in the public interest to require the Company to formulate a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why water loss reduction to 10 percent or less is not feasible or cost effective, and to docket in this case no later than July 31, 2010, either the plan, the report, or notification that its water loss has been reduced to below 10 percent. (Emphasis added)

1 The Company filed the required plans to reduce NRW in these districts before the July
2 31, 2010 deadline, has updated the NRW plans, has kept Commission Staff informed of
3 progress, and has been implementing these plans diligently as described in detail in
4 Exhibit B to my testimony. The Company is in compliance with Commission Decision
5 71410 regarding water loss in these districts.

6 Staff's unprecedented and extreme recommendation will have a negative financial impact
7 on the Company affecting its ability to continue to pursue NRW. The recommendation
8 would not allow Arizona-American to put into rate base over \$2 million of capital that
9 has already been spent to reduce NRW which is included in this rate case, including
10 replacing meters, mains, and service lines, and purchasing acoustic leak detection
11 equipment. It would not allow the Company to recover additional operating costs already
12 spent investigating leaks, testing and replacing meters, and service line repairs.

13 Moreover, it would not do any more to direct Arizona-American's attention to an issue
14 that already has plenty of management and staff attention being paid to it.

15 If the Commission Staff wants to help the Company further reduce NRW in the Mohave
16 and Havasu water districts, it should instead support Arizona-American's Infrastructure
17 System Replacement Surcharge ("ISRS") proposal in this rate case.

18 **IV THE BENEFITS OF AN ISRS**

19 **Q. DOES THE COMPANY HAVE ANY OTHER SUGGESTIONS ON HOW TO**
20 **REDUCE NRW IN THESE TWO SYSTEMS?**

21 **A.** Yes. Both the Havasu and Mohave water systems have defective polyethylene pipe that
22 was used in service line installation in many developer projects many years ago. As
23 noted in our work progress reports, we have repaired or replaced over 1,600 of these lines
24 since 2010. We still have an estimated 2,100 service lines still in the ground that used
25 this defective pipe. The water loss issue will not entirely go away until a majority of

1 these service lines are replaced. If we continue at the pace that we have been, we will
2 continue to replace these lines and over time will see the water loss become more
3 manageable. If Arizona-American were approved to implement ISRS in Mohave and
4 Havasu water districts, we could use this tool to systematically address these service lines
5 over a shorter period of time.

6 Mr. Townsley in his testimony in this case notes that because of the mounting focus from
7 the Company, the Commission, and the Commission Staff on NRW in Mohave and
8 Havasu water districts, that an ISRS would be a very effective tool to help us to do more
9 to address NRW. An ISRS would enable the Company to make investments in these
10 districts to replace older infrastructure which will reduce NRW and do so in such a way
11 that the perceived rate shock to our customers is mitigated. I urge the Commission to
12 adopt ISRS in this case, enabling us to add it to our NRW plans for these two districts.

13 **V THE COMPANY'S PROPOSAL**

14 **Q. DOES ARIZONA-AMERICAN HAVE AN ALTERNATIVE PROPOSAL IN LIEU**
15 **OF THE COMMISSION STAFF'S PROPOSAL?**

16 A. Yes. We propose, that instead of having Arizona-American's limited resources further
17 hampered by Staff's recommendation, to submit a report annually to Commission Staff
18 on NRW levels and actions in the Mohave and Havasu districts. Arizona-American
19 would also be willing to meet and brief Staff and incorporate its suggestions to help guide
20 the Company in any other efforts that Staff strongly feels it should be undertaking.

21 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

22 A. Yes.